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2011 RREV U.K. Remuneration Guidance

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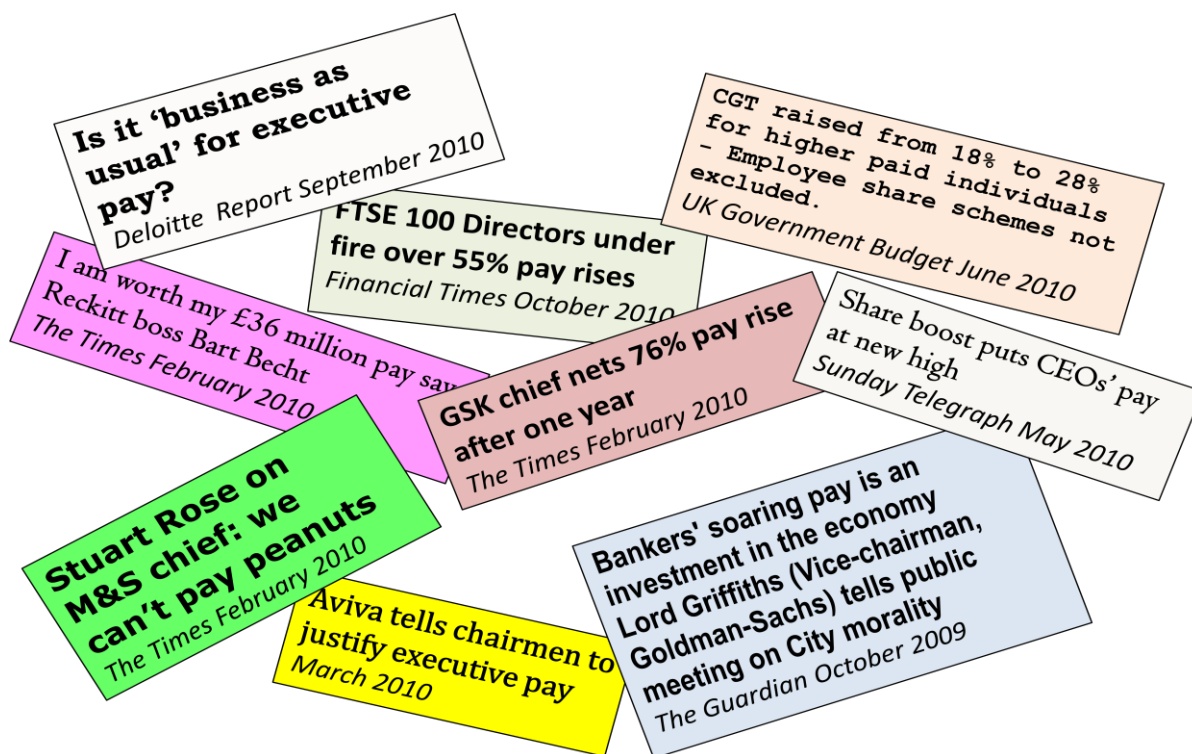
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Introduction

As can be seen from the headlines below, in 2010 executive remuneration was a controversial subject for investors, executive directors and remuneration committees and there is every expectation that executive pay will remain a high profile subject for many years to come.



Context for 2011 Assessments

This guidance provides an outline of the most common considerations that RREV will be taking into account before issuing vote recommendations to our clients on U.K. public companies' remuneration-related resolutions. The guidance described is consistent with National Association of Pension Funds (NAPF) Policy.

The U.K. Corporate Governance Code published in May 2010 applies to financial years beginning on or after 29 June 2010 and maintains the now long established main principle that:

*Levels of remuneration should be sufficient to **attract, retain and motivate** directors of the quality required to run the company successfully, but a company should **avoid paying more than is necessary for this purpose**. A significant proportion of executive directors' remuneration should be structured so as to **link rewards to corporate and individual performance**.*

However, although the principle remains the same, the environment in which it operates has changed significantly over recent years, making the forward looking judgements made by remuneration committees more challenging. Although the

majority of recommendations in our previous guidance are still relevant [<http://www.issgovernance.com/files/2010-rmg-uk-remuneration-guidance.pdf>] these guidelines summarise RREV's anticipated focus areas for the 2011 proxy season.

Despite improvements since the depths of the global financial downturn in 2008, especially in certain regions and in certain sectors, the global economic outlook still remains uncertain. Therefore, shareholders have no appetite for a return to the steady upward pay ratchet that was a feature of the pre-downturn years. Instead, most are expecting a continuance of the restraint on executive pay that most companies have observed over the last year or two.

General Remuneration Policies and Practices

RREV will continue to maintain a robust approach to executive remuneration in 2011. The following are some statements of principle on general policy and practice:

- Remuneration should motivate executives to achieve the company's strategic objectives, targets and key performance indicators set out in the company's business review. A good performance target is aligned with company strategy, future direction, performance and shareholder value creation, without promoting or rewarding disproportionate risk taking. Changes in pay levels should take into account the pay and conditions across the company.
- Any increases in total remuneration for executives should not be out of line with general increases in the company, with increases in response to a peer group comparison discouraged. We expect a detailed and compelling explanation for any increases.
- Boards must avoid rewarding for failure or for poor performance and the current economic environment should not become a justification to relax, revise or abandon performance targets retrospectively.
- Companies should undertake meaningful, timely and responsive consultation with shareholders prior to the presentation of finalised proposals for a shareholder vote.
- Remuneration committees should not use their discretion to make payments which are not justified by financial results and the underlying performance of the company.
- Companies should closely examine the behaviour that the design of a remuneration package drives and ensure that it reflects the board's appetite for risk.
- Targets should be set to achieve long-term growth and any high growth targets should be accompanied by a justification and information on risk management to ensure company stability.
- Remuneration arrangements that are based on a tax-efficient mechanism that favour the participants should not lead to increased costs for the company, including the company's own tax liabilities, nor be overly complex or have performance targets that leave their alignment with the business strategy unclear. The company should demonstrate why this step is positive for the company and for shareholders, not merely that the impact is cost neutral or cost negligible.

- Dividends relating to the duration of the performance period may be paid retrospectively on shares that the executive retains after the performance targets have been measured, but no dividends should be paid on shares that are lost when the targets are assessed.
- One-off pay awards to address concerns over the retention of an executive director are not considered to be effective and are therefore not justified.
- For shareholder alignment, the development of a shareholding of at least 100 percent of basic salary by executive directors is encouraged.

Guidance on the Components of the Remuneration Package

1. Basic Salaries

Any increase in salary is expected to be low and be in line with general increases in the company; post-freeze 'catch-up' salary increases or benchmarking related increases are not supported. In order to restrain an increase in total remuneration, a significant salary increase should be offset by a reduction in variable pay.

Exceptions may be made for promotions, increases in responsibilities and new recruitments to the board. Companies are required to justify salary levels and increases in basic salary with reference to their remuneration policy.

2. Bonuses

There should be transparency over the annual bonus targets for the current year. For bonuses paid there should be retrospective disclosure of targets and the extent to which they were achieved. In the absence of a specific explanation, RREV will expect bonus payment levels to move in the same direction as the movement in the company's profits.

Although encouraged, the introduction of deferral and/or claw-back of annual bonus does not merit an increase in the maximum size of award.

Bonuses should not encourage or demand the taking of excessive risks.

Targets should be challenging but realistic and should closely reflect a company's ongoing business expectations. However, the lowering of targets should generally be reflected in a reduction of the bonus potential.

If the bonus potential is to be increased, there should be a corresponding increase in the targets coupled with informative retrospective disclosure of the targets and the level to which they were achieved to explain the bonus payments made.

3. Long Term Incentive Plans

Targets should reflect the board's appetite for risk and be set to achieve long-term growth. High growth targets should be justified and accompanied by information on controls to manage the risk created to ensure the business remains stable.

The lowering of targets should generally be reflected in a reduction of the amount that can vest and, similarly, any increase in award size should be linked to more challenging targets.

Companies are encouraged to provide greater disclosure on the extent to which long-term awards' performance targets were met and its link with the amounts that vested.

Post-vesting holding periods are encouraged.

4. Service Contracts

Guidance on the terms of service contracts and termination arrangements is unchanged for 2011.

5. Pensions

In conjunction with the change in the taxation of pension arrangements, companies are requested to outline their pension policy going forward. Any compensation to executives for the loss of tax relief is not considered to be acceptable.

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